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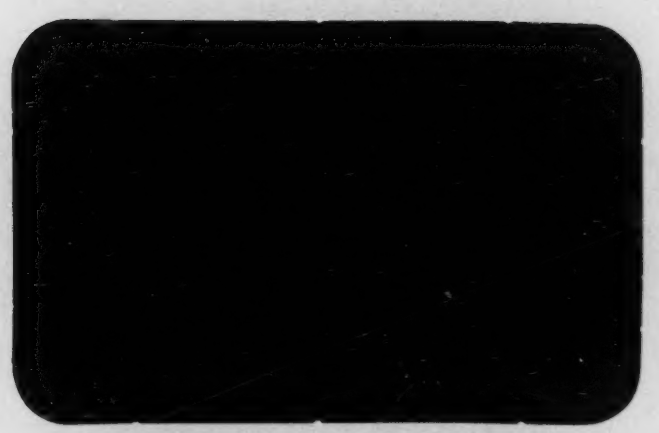

KENT ECONOMIC
AND DEVELOPMENT
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KEDI ECONOMIC SURVEY

May 1, 1987

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SOURCES:

U.S.Department of Commerce first estimate of 1987:1, National Income and Product data, April 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, April 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Outlook for growth in goods producing industries remains mixed. Manufacturing is expected to improve a bit this year.

Prices

Consumer prices, as measured by the CPI, are expected to grow within tolerable limits at 2.8% this year, and 3.4% in 1988.

Employment & Labor

Major increases in jobs will take place in private service-producing industries. Look for further drop in unemployment.

Housing

Further declines in single-family starts with more rapid declines in multi-family starts are predicted.

Automobiles

Forecast data calls for 9% decline in car sales this year. Imported car sales will be 2.8 million, down from last year.

Budgets

KEDI forecast data for 1987 and 1988 are optimistic with less red ink in foreign trade. This will keep interest rates low.

Income

Problem areas still exist in oil exploration, oil field services, metal products, steel, tobacco, rails, oil and mining equipment.

Money & Credit

KEDI anticipated that the Fed will stick with easy money and credit policy through this year and next year.

Interest Rates, Yields & Securities Prices

No significant interest rate increases are expected to occur throughout this year and next year.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.OO on page 3 shows forecast data of selected indicators of the May 1987 KEDI forecast.
* In 1987 moderate growth is expected. It will accelerate in 1988.
* The upward trend will continue throughout 1989-1990.
* Forecast data for 1987-1990 do not point to recession or major downturn.
* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.
* Federal budget deficits will keep declining in 1987 and the following fiscal years.
* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3585.2	4038.7	4135.6	4243.1
product, p. 5	% change	2.5	3.0	2.4	2.6
Index of indust.	1977=100	123.8	138.2	142.6	147.5
prod., p. 5	% change	1.0	3.3	3.2	3.4
Capacity	%	80.4	80.9	80.0	79.3
utiliz., p. 5	% change	-1.0	.1	-1.0	-.9
Unemployment	%	7.2	6.1	6.5	6.4
rate, p. 5	% change	-3.1	-1.2	1.1	-.9
Private housing	mil.units	1.7	1.9	1.8	1.9
starts, p. 5	% change	4.9	3.8	-2.4	3.5
Car sales,	mil.units	11.0	11.2	11.1	11.6
p. 5	% change	3.2	2.6	-.9	4.0
Implicit GNP	1982=100	111.5	126.5	131.1	136.3
price def.,p.11	% change	2.6	3.3	3.6	4.0
Consumer Price	1967=100	322.2	360.9	372.5	385.9
Index, p. 11	% change	1.9	3.4	3.2	3.6
Prod.Price Index	1967=100	293.7	329.1	343.9	355.6
(fin.goods),p.11	% change	-1.6	4.1	4.5	3.4
Federal Deficit	bil. $	-200.1	-130.5	-104.5	-68.8
p. 21	% change	15.1	-15.8	-19.9	-34.2
Personal Income	bil. $	3314.5	4251.2	4540.3	4880.8
p. 23	% change	5.1	6.8	6.8	7.5
Prime Rate	%	9.4	9.0	9.8	10.7
p. 27	% change	-11.6	7.3	9.1	8.6
Mortgage Rate	%	11.1	9.6	9.4	9.5
p. 27	% change	-11.7	5.6	-2.1	2.0
Currency+demand	bil. $	593.6	852.6	910.5	969.7
deposits , p. 25	% change	13.4	7.4	6.8	6.5
Commercial+ind.	bil. $	493.9	590.3	607.4	620.1
loans, p. 25	% change	5.3	3.3	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.6	90.8	91.3
production	% change	-4.8	.3	.9	.4
Electric power	mil.kw-hr	2576	3226	3342.1	3499.2
production	% change	6.5	3.9	3.6	4.7
Bituminous coal	mil.sh.tons	873	938	973.3	984.1
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3279	2325	2371.7	2426.2
output	% change	.9	1.9	2.2	2.3
Retail sales	bil. $	1377.7	1757.3	1864.5	1995.0
p. 7	% change	6.2	6.4	6.1	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

+	.27%	GNP
	0.00%	Autos
-	.03%	Capacity Util.
-	.14%	Index Indus. Prod.
-	2.48%	Unemp-ploy-ment
-	2.89%	Private Housing Starts

In the services producing segment the fastest growth is predicted for retail trade, transportation services. mainly local transportation, and other services that include business services, hotels, restaurants, fast food, amusement and recreational services, health, education, and legal services.

In finance, insurance and real estate the brightest outlook is in nonbank finance, specifically credit agencies other than banks, brokers and dealers, brokers and dealers, and investment offices.

Outlook for growth in goods producing industries remains mixed. Manufacturing in general is expected to improve a bit this year, and more significant increases are predicted to take place in the following year.

Significant differences in growth rates of industries within this segment will persist, however. KEDI forecast calls for a good performance in most of nondurable manufacturing specifically food and kindred products, paper and allied products, plastic materials, organic chemicals, and pharmaceuticals.

Flat and possible declines in tire, footwear, apparel, textile, and tobacco products. In durable manufacturing, the outlook for most industries shows small improvements only.

Industries that are expected to grow strongly are aircraft and space vehicles, ordnance and accessories, electrical equipment, household appliances, and miscellaneous manufacturing, especially jewelry, musical instruments, toys and office supplies.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3585.2	123.8	7.21	80.4	1.742	11.0
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3661.4	124.4	7.16	79.6	1.905	10.7
3*	3686.4	125.0	6.90	79.7	1.744	13.2
4*	3696.1	125.9	6.83	79.6	1.672	10.8
YEAR	3674.9	125.1	6.99	79.6	1.828	11.3
% change from '85	2.5	1.0	-3.1	-1.0	4.9	3.2
1987:1	3735.2	126.8	6.67	79.6	1.823	10.2
2	3763.8	127.4	6.50	79.5	1.774	10.4
3	3797.1	128.5	6.41	79.9	1.751	11.0
4	3834.2	131.4	6.32	80.1	1.644	10.0
YEAR	3782.6	128.5	6.47	79.8	1.748	10.4
% change from '86	2.9	2.8	-7.3	.2	-4.4	-8.4
1988:1	3850.3	131.9	6.28	80.2	1.571	10.3
2	3875.8	133.1	6.27	80.4	1.806	10.8
3	3911.8	134.3	6.15	80.8	1.937	11.5
4	4046.2	135.8	6.02	81.7	1.872	11.2
YEAR	3921.0	133.8	6.18	80.8	1.796	10.9
% change from '87	3.7	4.1	-4.6	1.3	2.8	5.3

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from April 1987 Forecast

+ 1.40%	Pers. Con. Exp. Services
+ .83%	Pers. Con. Exp. Nondurable
0.00%	Retail Sales Durable
- .26%	Retail Sales Total
- .41%	Retail Sales Nondurable
- 1.80%	Pers. Con. Exp. Durable

IN 1987, CONSUMER SPENDING WILL NOT BE THE DRIVING FORCE THAT IT WAS IN 1986. HOWEVER, IT WILL REMAIN AT GOOD LEVELS THROUGHOUT THE YEAR AND WILL ACCELERATE SIGNIFICANTLY IN 1988.

The 1987 forecast data for consumer spending are optimestic for the services and nondurables segments, and weak for durables due to expected declines in auto sales.

Recent data underline this trend. March retail sales remained at approximately the same level as February and by 6.2% above the March 1986 sales. KEDI forecast data for April, May and June follows:

Retail Sales Percent Changes from Preceeding Month:

	March	April	May
Gen. Mdse.	- 1.1	+ 1.4	+ 1.8
Bldg. Mat°l.	- 2.0	+ .3	+ .9
Furniture & Home furnish.	- .3	- .1	+ .4
Auto sales	+ 1.0	- .3	- .7
Apparel & accessories	+ .4	+ .8	+ 1.1
Gasoline stns.	+ 1.3	+ 1.9	+ 2.9

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.3	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1445.6	532.1	913.5
3*	414.5	932.8	1452.4	1470.2	559.4	910.8
4*	403.1	940.[illegible]	1477.2	1516.9	560.3	935.5
YEAR	388.1	932.8	1443.3	1460.9	544.5	911.0
% change from '85	8.0	3.1	8.0	6.0	6.4	5.2
1987:1	385.4	962.8	1506.1	1504.8	554.9	949.9
2	396.3	966.5	1549.5	1514.6	560.8	953.8
3	408.3	976.8	1581.2	1531.1	579.1	952.0
4	410.6	983.5	1629.4	1582.4	590.0	992.4
YEAR	400.1	972.4	1566.6	1533.2	571.2	962.0
% change from '86	3.1	4.3	8.5	5.0	4.9	5.6
1988:1	410.5	998.3	1648.7	1626.0	609.4	1016.6
2	414.4	1016.7	1684.8	1640.4	618.1	1022.3
3	428.6	1026.6	1695.4	1656.1	627.9	1028.2
4	451.4	1039.8	1855.8	1683.9	635.4	1048.5
YEAR	426.2	1020.3	1721.2	1651.6	622.7	1028.9
% change from '87	6.5	4.9	9.9	7.7	9.0	7.0

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change from April 1987 Forecast	
+20.80%	Federal Govt. Purch.
+ 1.37%	Gross Private Dom. Inv.
+ .27%	GNP
- .20%	State Local Purch.
- 3.50%	Pers. Cons. Expend.
-11.85%	Net Exports

The first estimate of the growth of the U.S. economy in 1987:1 shows that the U.S. economy grew at 4.3% rate, compared to the 1.1% growth in 1986:4. Though such a big increase has been due mainly to the increase in inventories (especially unsold cars), it indicates that the economy has retained its strength.
There are no indications of a slowdown. The 1987:1 data indicate a good start of the year, and many signals point to positive developments in coming quarters:

* Index of leading indicators rose by .4% in March, the fifth consecutive increase in six months.
* Trade imbalance is starting to ease.
* U.S. business productivity rose 1.8% rate in the first quarter and April data indicate it will continue improving.
* The first quarter 1987 farmers profit rose by 11% compared to 1986:1, and their indebtedness declined significantly.
* The first quarter 1987 earnings gain of U.S. corporations was the best since 1984.
* March orders for durables increased significantly from February.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3585.2	2324.5	647.7	-108.2	323.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3661.4	2408.4	664.7	-153.9	328.9	413.3
3*	3686.4	2448.0	651.3	-163.3	330.9	419.5
4*	3696.1	2445.8	629.0	-148.0	348.6	420.7
YEAR	3674.9	2418.7	657.2	-147.8	332.2	414.6
% change from '85	2.5	4.1	1.5	36.6	2.7	4.3
1987:1	3735.2	2443.1	669.4	-134.2	332.3	424.6
2	3763.8	2479.4	651.2	-132.5	338.6	427.1
3	3797.1	2498.5	650.6	-124.6	341.2	431.4
4	3834.2	2515.0	662.4	-121.0	344.3	433.5
YEAR	3782.6	2484.0	658.4	-128.1	339.1	429.1
% change from '86	2.9	2.7	.2	-13.3	2.1	3.5
1988:1	3850.3	2430.0	667.4	-120.3	348.6	440.2
2	3875.8	2524.5	670.8	-112.8	350.1	443.2
3	3911.8	2550.5	671.6	-108.6	352.9	445.4
4	4046.2	2694.9	676.6	-129.5	354.1	450.1
YEAR	3921.0	2572.4	671.6	-117.8	350.1	444.7
% change from '87	3.7	3.6	2.0	-8.0	3.2	3.6

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

+ .77%	Pers. Cons. Expend.
+ .42%	Consumer Price Index
+ .02%	State Local Purch.
+ .01%	Producer Price Index
- .04%	GNP
- 1.37%	Federal Govt. Purch.

CONSUMER PRICES, AS MEASURED BY THE CPI, ARE EXPECTED TO GROW WITHIN TOLERABLE LIMITS AT 2.8% THIS YEAR, AND 3.4% IN 1988.

MODERATE BUSINESS INFLATION for the balance of this year and 1988 is predicted.

Recent rises in spot prices of RAW MATERIALS are not likely to continue.

* Worldwide gluts of supplies of raw materials still remain.
* Prices of RAW MATERIALS have increased from abnormally low levels in the spring of last year. Now, they are near the 1985 levels, far from their 1984 peaks.
* Prices for foodstuffs are likely to remain low because of permanent worldwide surpluses of agricultural products.
* Energy prices are expected to move up moderately.

With so much over-capacity--and productivity holding its° own--there is not much evidence that business inflation can rise significant

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.2	293.7	111.5	111.5	109.4	116.0
1986:1*	327.3	290.8	113.5	113.5	111.0	118.8
2*	326.5	288.5	114.0	114.1	111.8	119.4
3*	328.9	287.9	115.0	115.1	111.6	120.3
4*	330.9	288.4	115.2	115.3	106.7	122.0
YEAR	328.4	288.9	114.4	114.2	110.3	120.1
% change from '85	1.9	-1.6	2.6	2.4	.8	3.6
1987:1	333.9	291.9	116.2	116.8	111.1	123.2
2	336.9	296.7	117.2	117.5	112.6	124.3
3	339.1	301.8	118.2	118.7	113.8	125.4
4	342.5	305.7	119.4	120.2	115.4	127.2
YEAR	338.1	299.0	117.8	118.3	113.2	125.0
% change from '86	3.0	3.5	2.9	3.6	2.7	4.1
1988:1	345.7	317.9	120.7	125.8	117.1	128.3
2	348.8	311.8	122.2	123.4	118.4	129.6
3	349.5	316.2	122.7	123.5	119.6	131.8
4	352.2	318.5	124.3	124.2	121.4	133.0
YEAR	349.1	316.1	122.5	124.2	119.1	130.7
% change from '87	3.2	5.7	4.0	5.0	5.2	4.5

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987 FORECAST DATA

Percent Change from April 1987 Forecast

+ 1.24%	Gross Private Dom. Inv.
+ .76%	Pers. Cons. Expend.
+ .18%	GNP
- .16%	State Local Purch.
- .19%	Net Exports
- 4.12%	Federal Govt. Purch.

First estimates of the 1987:1 and components recently released by the Department of Commerce correspond to the trends in the economy forecasted here for this year:

* Smaller increases in consumer spending compared to their robust growth in 1986.
* Weak auto sales compared to 1986.
* Improvements in the U.S. balance of trade.
* Low levels of business capital outlays.

The 1987:1 GNP data do not signal any decline in coming months and do not point to a recession. They indicate moderate growth throughout the year.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3*	4240.7	2799.8	675.8	-108.9	369.3	504.7
4*	4258.7	2820.4	663.2	-110.2	372.1	513.2
YEAR	4205.1	2761.4	683.6	-104.3	366.2	497.9
% change from '85	5.2	5.4	3.4	32.2	3.4	7.9
1987:1	4339.2	2854.3	704.8	-112.0	369.2	522.9
2	4411.2	2912.3	693.1	-106.4	381.3	530.9
3	4488.2	2966.3	695.6	-103.0	388.3	541.0
4	4578.0	3023.5	702.0	-96.2	397.3	551.4
YEAR	4454.1	2939.1	698.9	-104.4	384.0	536.5
% change from '86	5.9	6.4	2.2	.1	4.9	7.8
1988:1	4647.3	3057.5	707.5	-90.7	408.2	564.8
2	4736.2	3115.9	712.0	-80.6	414.5	574.4
3	4799.8	3150.6	718.1	-78.0	422.1	587.0
4	5029.4	3347.0	724.0	-70.1	429.9	598.6
YEAR	4802.3	3196.1	715.4	-79.8	418.7	581.2
% change from '87	7.8	8.7	2.4	-23.5	9.0	8.3

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from April 1987 Forecast

+ .25%	Non-Agri.
+ .24%	Total Employed
+ .08%	Civilian Labor Force
0.00%	Agriculture
- .01%	Population
- 2.48%	Unemployment rate

FORECAST DATA CALL FOR CONTINUING DROPS IN UNEMPLOYMENT RATE FOR THE REST OF 1987 AND 1988. MAJOR INCREASES IN JOBS WILL TAKE PLACE IN PRIVATE SERVICE-PRODUCING INDUSTRIES.

Expect a 5% increase this year, and another 5% rise in 1988.

EMPLOYMENT IN 1987-1988
(Mil., non-agri. payrolls, yearly avg.)

	1986	1987	1988
Goods Producing Industries	24.9	25.1	25.4
Mining	.8	.8	.8
Construction	4.9	5.1	5.2
Manufacturing	19.2	19.2	19.4
Service Producing Industries	58.5	61.4	64.4
Transportation & Public Util.	5.3	5.9	6.2
Retail Trade	18.0	19.0	19.6
Finance, insur. & real estate	6.3	6.7	7.0
Other services	23.0	24.3	25.8
Government	16.8	17.2	17.9

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3*	247.3	118.2	110.2	3.2	104.1	6.90
4*	249.8	118.6	110.5	3.1	107.4	6.83
YEAR	246.9	117.9	110.2	3.2	107.0	6.99
% change from '85	2.1	2.1	2.0	-.8	3.0	-3.09
1987:1	250.7	119.2	111.2	3.1	108.1	6.67
2	252.3	120.3	112.5	3.1	109.4	6.50
3	254.0	121.8	114.0	3.1	110.9	6.41
4	256.1	122.3	114.6	3.1	111.5	6.32
YEAR	253.3	120.9	113.1	3.1	110.0	6.47
% change from '86	2.6	2.6	2.8	-2.4	2.7	-7.33
1988:1	257.5	122.6	114.9	3.1	111.8	6.28
2	259.6	123.6	115.9	3.0	112.9	6.27
3	261.4	124.8	117.1	3.0	114.1	6.15
4	263.5	125.9	118.3	3.0	115.3	6.02
YEAR	260.5	124.2	116.5	3.1	113.4	6.18
% change from '87	2.9	2.8	2.9	0.0	3.2	-4.56

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

+ .54%	1-Family unit price Existing
- .56%	Permits Issued
- .47%	1- Family Unit price New
- 1.31%	Multiple Family Housing Starts
- 1.62%	Single Family Housing Starts
- 3.87%	Mobile Home Shipments

CONSECUTIVE DECLINES IN HOUSING STARTS FOR THE REST OF THIS YEAR ARE PREDICTED WITH SMALL DECLINES IN SINGLE-FAMILY STARTS, AND MORE RAPID DECLINES IN MULTI-FAMILY STARTS.

Data for March indicate the expected trend:

Housing Starts
(mil. units)

	Total	1-Family	Multi-fam.	Permits
Feb '87	1833	1299	534	1763
Mar '87	1774	1245	529	1757

Sales of new homes slumped 3.6% in March, which is 11.8% below March 1986.

Expect further declines in April and consecutive months. There is still bad news ahead because the April data will not yet reflect the impact of increases in mortgage rates that has happened since late March.

The stage is set for a sharp decline in May. KEDI does not expect that mortgage rates will resume their downward trends soon.

Major declines are expected no earlier than in 1988.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1985*	1.072	.669	.284	1.735	101.0	90.6
1986:1*	1.257	.733	.258	1.839	106.3	94.4
2*	1.242	.663	.241	1.805	111.9	100.6
3*	1.142	.602	.237	1.678	114.7	98.8
4*	1.156	.545	.243	1.696	117.4	99.0
YEAR	1.199	.636	.245	1.754	112.6	98.2
% change from '85	11.9	-5.0	-13.8	1.1	11.5	8.4
1987:1	1.292	.531	.258	1.764	120.0	99.7
2	1.202	.572	.261	1.750	121.2	102.1
3	1.150	.601	.254	1.646	123.1	103.9
4	1.090	.554	.246	1.594	124.6	105.7
YEAR	1.183	.565	.255	1.688	122.2	102.8
% change from '86	-1.3	-11.2	4.1	-3.8	8.6	4.7
1988:1	1.007	.564	.250	1.587	127.8	108.4
2	1.205	.601	.269	1.706	130.3	110.8
3	1.289	.648	.289	1.824	132.6	112.6
4	1.257	.615	.295	1.810	136.5	115.7
YEAR	1.190	.607	.276	1.732	131.8	111.9
% change from '87	.5	7.5	8.2	2.6	7.8	8.8

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

+ 5.88%	Dealer Inventory
+ 3.77%	Domestic Car Sales
+ .71%	Total Light Truck Sales
0.00%	Total Car Sales
- .32%	Shipments
- 2.59%	Imported Car Sales

Compared to the April KEDI forecast, data in this forecast have been slightly lowered for sales of domestic and foreign cars, domestic production, and increased a bit for inventories of unsold cars at dealers.

The forecast calls for 9% decline in sales this year compared to 1986. Significant decreases in sales of imported cars will result in 2.8 million units sold compared to 3.1 million last year.

The market for light-duty trucks is expected to remain strong throughout the year.

Improvements in factories° output,

and domestically produced cars are forecasted for 1988. However, 1988 will still remain below the 1986 levels. (See Table 1.42 on the following page.)

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.0	8.2	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.9	7.7	3.4
2*	10.7	7.7	3.0	1.8	8.3	3.5
3*	13.2	9.7	3.5	1.3	11.0	3.6
4	10.8	7.2	3.0	1.4	8.7	3.3
YEAR	11.3	8.1	3.1	1.4	8.9	3.5
% change from '85	3.2	-.9	9.8	7.7	6.3	-6.8
1987:1	10.2	7.6	2.6	1.9	7.8	3.3
2	10.4	7.7	2.7	1.8	7.7	3.4
3	11.0	8.0	3.0	1.8	7.9	3.6
4	10.0	7.0	3.0	1.8	7.7	3.8
YEAR	10.4	7.6	2.8	1.8	7.8	3.5
% change from '86	-8.4	-.2	-8.1	28.6	-12.9	2.2
1988:1	10.3	7.1	3.2	1.9	7.6	3.3
2	10.8	7.7	3.1	1.8	7.9	3.5
3	11.5	8.4	3.1	1.7	8.1	3.7
4	11.2	8.1	3.1	1.7	8.0	3.8
YEAR	10.9	7.8	3.1	1.7	7.9	3.6
% change from '87	5.3	-5.3	10.6	-5.6	1.6	1.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

+ .32%	Federal Surplus/ Deficit
+ .22%	State Local Corp. Tax Accrued
+ .03%	Corp. Profit Tax Accrued
0.00%	State Income Tax
- .72%	State Surplus/ Deficit
- 2.30%	Federal Income Tax

FEDERAL BUDGET DEFICITS ARE THE KEY VARIABLE FOR IMPROVING THE U.S. BALANCE OF TRADE, STABILIZING THE RATE OF EXCHANGE OF THE DOLLAR, AND LOWERING OF INTEREST RATES.

Since 1982, federal budget deficits have been closely related with foreign trade deficits.

Needs of Funds & Foreign Sources of Financing. (bil. $)

	FD (1)	GPDI (2)	NFI (3)
1982	145.9	447.3	1.0
1983	179.4	501.9	32.7
1984	172.9	674.0	91.0
1985	199.3	669.3	115.3
1986	206.6	683.6	116.5
1987	174.5	698.9	95.1
1988	154.4	715.4	68.4

The first two columns represent the needs of U.S. economy for financing. The third column is the need for foreign financing, i.e., inflows of foreign capital into the U.S. economy. Columns 1 and 3 are related--the wider the Federal Deficit, the higher the inflow of foreign capital. This results in a higher trade deficit. KEDI forecast data for 1987 and 1988 are optimistic with less Federal Deficits and less red ink in foreign trade. That results in less upward pressure on U.S. interest rates. Members of the Senate and House are in a spending mood and should keep that relationship in mind. they continue with spending proposals, the situation will become worse.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3*	365.8	84.3	-197.4	153.1	20.1	64.0
4*	376.1	92.7	-189.2	158.9	21.9	59.4
YEAR	361.3	80.8	-206.6	152.7	19.4	63.1
% change from '85	3.0	19.4	3.2	7.6	7.2	6.6
1987:1	365.2	95.3	-181.2	158.1	22.0	60.0
2	390.7	98.4	-177.4	162.8	22.3	64.6
3	394.6	100.7	-171.8	167.1	22.7	68.1
4	397.5	102.5	-170.2	169.2	23.6	70.2
YEAR	387.0	99.2	-175.2	164.3	22.6	65.7
% change from '86	7.1	22.7	-15.2	7.6	16.8	4.2
1988:1	404.8	103.1	-166.3	171.5	24.2	72.0
2	411.6	104.7	-161.4	173.8	25.8	72.7
3	418.5	108.9	-152.0	175.8	26.4	74.7
4	422.4	111.8	-140.1	178.9	27.2	75.3
YEAR	414.3	107.1	-154.9	175.0	25.9	73.7
% change from '87	7.1	8.0	-11.5	6.5	14.3	12.1

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change from April 1987 Forecast	
+ 9.54%	Personal Savings
+ .70%	Personal Disp. Income
+ .35%	Personal Income
+ .33%	Corp. After Tax Profit
+ .09%	Average Weekly Earnings
- .21%	Comp. of Employees

PROFIT OUTLOOK BY INDUSTRIES.

STRONG GAINS PREDICTED FOR:

Aerospace, apparel, chemicals, drugs preparation, food products, forest products, health care, instruments, insurance, nonferrous metals, railroads, non-tire rubber products, local transportation, paper and products.

AVERAGE INCREASES FOR:

Airlines, banks, building materials, utilities, printing and publishing, securities dealers, telephone, textile, thrift institutions, appliances, and computing machines.

LESS THAN AVERAGE:

Non-electrical machinery, ferrous metals, tires, office equipment, heavy construction, oil extraction, autos and equipment.

PROBLEM AREAS:

Oil exploration, oil field services, metal products, steel, tobacco, railroads, oil field and mining equipment.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2486.9	138.0	153.1	393.9
3*	3498.8	2979.9	2507.4	135.9	84.1	393.7
4*	3527.9	2993.0	2540.7	144.2	74.2	397.9
YEAR	3490.1	2976.1	2499.1	138.3	114.2	394.2
% change from '85	5.3	5.2	5.5	5.3	-20.3	3.2
1987:1	3585.3	3062.0	2565.3	146.6	109.2	401.1
2	3670.4	3116.9	2610.2	149.9	100.3	403.2
3	3740.4	3178.7	2661.3	156.8	107.5	409.0
4	3804.8	3238.1	2719.7	161.9	108.9	411.0
YEAR	3700.2	3148.9	2639.1	153.8	106.5	406.1
% change from '86	6.0	5.8	5.6	11.2	-6.8	3.0
1988:1	3845.9	3269.6	2760.1	164.5	104.7	413.8
2	3921.8	3336.4	2791.4	168.3	112.3	416.8
3	3972.3	3378.0	2851.0	174.2	117.8	419.4
4	4182.2	3580.9	2890.6	177.3	123.1	432.0
YEAR	3980.6	3391.2	2823.3	171.1	114.5	420.5
% change from '87	7.6	7.7	7.0	11.2	7.5	3.6

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987 FORECAST DATA

Percent Change from April 1987 Forecast

+ .59%	Consumer Install. Credit
- .03%	Currency & Demand Deposits
- .07%	Large Denom. Time Deposits
- .43%	Mortg. At S & L Assns.
- 2.35%	Consumer Install. Credit
-22.98%	Time Deposits

KEDI ANTICIPATES THAT THE FEDERAL RESERVE MONETARY AND CREDIT POLICIES WILL STICK WITH THE EASY MONEY AND EASY CREDIT POLICY IN BOTH FORECAST YEARS.

There is no boom in the economy in that will force the Fed to tighten the monetary and credit conditions in any appreciable way.

Expect moderate growth in most monetary and credit aggregates--money supply M2, consumer installment credit, and mortgage credit, for the rest of this year.

Faster growth is predicted in the second half of 1987 for commercial and industrial loans: 7-8% compared to 2% in the first half.

Continuous fast increases are predicted for M1 money supply.

Forecast for 1988 calls for a slowdown in the growth of money supply M1, regular growth for M2, and resumption of increases in consumer installment credit.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	522.8	493.9	436.5	583.2
1986:1*	633.9	2581.3	550.3	502.1	448.5	574.7
2*	658.4	2646.3	551.8	508.0	447.5	565.1
3*	685.6	2716.1	571.3	511.4	448.5	557.1
4*	714.7	2775.5	577.8	517.1	446.3	553.6
YEAR	673.1	2679.8	577.8	517.1	446.3	553.6
% change from '85	13.4	7.9	10.5	5.3	2.2	-5.1
1987:1	738.5	2823.1	581.2	520.5	440.0	568.9
2	745.1	2892.4	586.3	525.1	438.3	572.6
3	754.2	2958.4	598.7	534.9	437.1	573.0
4	761.0	3006.6	615.4	548.5	435.6	579.1
YEAR	749.7	2920.1	615.4	548.5	435.6	579.1
% change from '86	11.4	9.0	6.5	6.1	-2.4	4.6
1988:1	772.8	3083.4	625.6	554.1	447.0	596.2
2	787.0	3142.5	632.4	558.0	449.2	605.6
3	796.6	3218.6	541.7	564.3	453.4	619.8
4	818.9	3298.6	664.5	571.4	456.0	631.4
YEAR	793.8	3185.8	664.5	571.4	456.0	631.4
% change from '87	5.9	9.1	8.0	4.2	4.7	9.0

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

+28.72%	S & P's 500 Avg.
+11.91%	Prime Rate
+ 7.94%	Treas. Bills 3 mo. Yield
+ 7.60%	Aaa Corp. Bond Rate
+ 5.57%	20 yr. Govt. Bonds Yield
+ 3.41%	Conv. Mortg. Rate

THOUGH THE CURRENT QUARTER IS SEEN TO BE THE LIKELY THE BOTTOM OF THE INTEREST RATES CYCLE, NO SIGNIFICANT RATE INCREASES ARE EXPECTED TO OCCUR THROUGHOUT THIS YEAR AND NEXT YEAR.

Is anticipated that the Federal Reserve will not push interest rates upwards significantly as interest rates in Japan, Germany, and Great Britian will continue to decline.

Forecast data show that the need for relatively high U.S. interest rates in the rest of this year and in 1988 will not as urgent as was thought in the past months.

* U.S. trade deficit will continue to decline as the U.S. dollar stabilizes.
* Interest rate adjustments among the U.S., Japan, West Germany and the U.K. will result in interest rate differentials between the U.S. on one side, and W. Germany and Japan and other industrialized countries on the other side.

The interest rate differentials will be wide enough to allow foreign investors to continue investing in U.S. Government bonds and other U.S. securities.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1985*	7.48	9.43	11.12	11.32	10.88	186.84
1986:1*	7.01	9.37	10.22	9.74	9.01	221.72
2*	6.14	8.61	9.82	9.00	7.67	242.16
3*	5.52	7.85	9.82	8.81	7.38	241.15
4*	5.35	7.50	9.43	8.68	7.44	243.69
YEAR	6.00	8.33	9.82	9.06	7.88	237.18
% change from '85	-19.7	-11.6	-11.7	-20.0	-27.6	26.9
1987:1	5.36	8.50	9.15	8.78	7.56	274.16
2	5.61	8.18	9.48	8.85	7.83	286.80
3	5.84	8.54	9.98	9.02	7.94	295.17
4	5.90	8.80	9.86	9.16	7.96	298.74
YEAR	5.68	8.50	9.62	8.95	7.82	288.72
% change from '86	-5.5	2.1	-2.1	-1.2	-.7	21.7
1988:1	5.94	8.75	9.90	9.21	8.11	297.65
2	5.47	7.59	8.83	8.35	7.39	304.26
3	5.83	8.53	8.53	9.17	8.06	302.45
4	5.87	8.75	8.95	9.69	8.02	298.74
YEAR	5.78	8.40	9.05	9.11	7.89	300.77
% change from '87	1.8	-1.2	-5.9	1.7	.9	4.2

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the three months Treasury bills rate has been selected for comparison. Actual number is in the Federal Reserve Bulletin, May 1987, Table 1.35, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.) Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986.)

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
3-month Treasury Bills Rate (%)
Actual figure: 5.98

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy percent difference
First Interstate Economics, p. 42	11/18/85	8.04	+2.06
American Statistical Assn., and National Bureau of Economic Research, p. 44	12/85	7.12	+ .14
Ashland Ohio, p. 44	12/85	7.13*	+1.14
U.S. Chamber of Commerce, p. 47	12/85	6.60	+ .62
UCLA Business Forecasting Project, p. 46	12/85	6.60	+ .62
The University of Michigan, RSQE, p.49	12/12/85	6.98	+1.00
Wharton Econometric Forecasting Associates, Inc., p. 54	1/86	6.18	+ .20
Metropolitan Life Insurance. p. 55	1/1/86	7.19	+1.21
Standard & Poor's Corp., p. 58	1/16/86	6.40	+0.42
Data Resources, Inc., p. 60	1/22/86	6.79	+ .81
AmeriTrust Company, p. 62	1/27/86	7.50	+1.52
Money Market Services, Inc. p. 64	1/27/86	7.65	+1.67
Chase Econometrics, p. 65	1/29/86	6.94	+ .96
KEDI, Inc., p. 67	2/1/86	7.14	+1.16

*calculated from quarterly values

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36